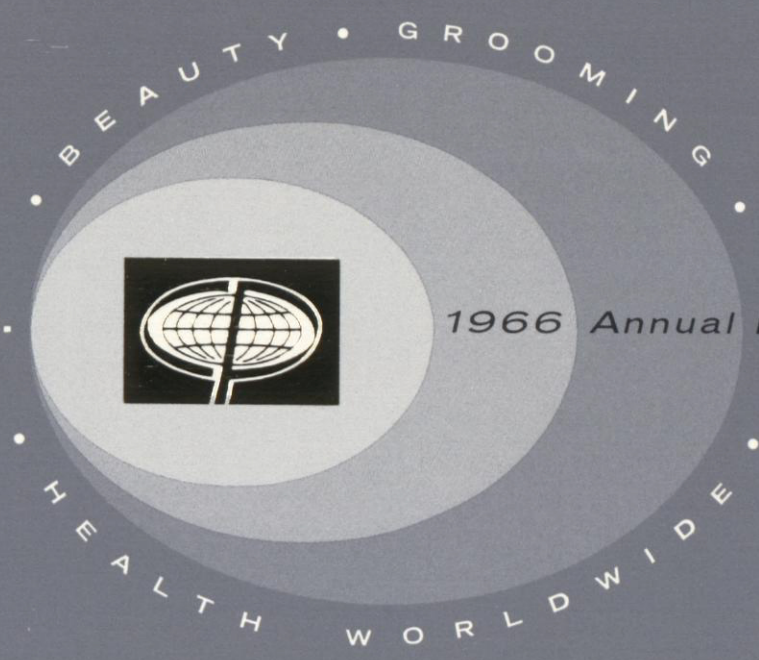


CLEVELAND PUBLIC LIBRARY
BUSINESS FILE, B10.
CORPORATION FILE

Chesebrough-Pond's Inc.



1966 Annual Report



Beauty, Grooming and Health — Worldwide

Our Principal Products are

Chesebrough-Pond's has prospered in the increasingly competitive mass markets of the world — in large measure as the result of its dedication to a basic marketing policy that goes back more than 100 years. The company's purpose, stated simply, has been to offer the consumer the greatest possible value for his money by manufacturing top quality products and selling them at moderate prices around the world.

One lesson Chesebrough-Pond's has learned is that marketing techniques that work well in the competitive United States often can be adapted for other countries. So, underlying the continuing prosperity of the company is a story of well-known products sold with imaginative marketing strategies in the United States, then brought to the 140 other lands that provided nearly 40 per cent of Chesebrough-Pond's sales in 1966.

As the consumer economies of the world grow, Chesebrough-Pond's continues to lead its competitors in new overseas markets. The depth of the company's international business, coupled with its solid foundation in the United States, makes the company healthier today than ever before — and foretells continuing growth in the future.

Pond's Cold Cream
Pond's Dry Skin Cream
Pond's Vanishing Cream
Pond's Moisture Cream

Pond's Dreamflower Talc
Pond's Dusting Powder

Pond's Angel Skin Lotion

Fresh-Start by Pond's

Angel Face Make-Up

Cutex Nail Polish
Cutex Lipstick
Cutex Polish Remover

Vaseline Petroleum Jelly
Vaseline Lip-Ice

Vaseline Hair Tonic
Vaseline Cream Hair Tonic

Groom & Clean Hair Groom

Pertussin Cough Syrup
Pertussin 8-Hour Cough Formula
Pertussin Medicated Vaporizer

Q-Tips Cotton Swabs
Q-Tips Cotton Balls

Odorono Deodorants

Measurin Timed-Release Aspirin

Prince Matchabelli
Fragrances

Wind Song ■ Golden Autumn
Prophecy ■ Beloved ■ Stradivari
Abano ■ Summer Shower ■ Spring Fancy

Aziza Eye Make-Up
Polyderm Skin Care Products
Black Watch Men's Toiletries

Vaseline Petrolatum Gauze Dressings
Lily White Surgical Dressings
Faichney and Ballo Thermometers

Additional Products Sold Overseas

Pond's Cold Cream Soap
Pond's Spray 'N Stay Hair Spray

Vasenol Baby Products

Lord Cheseline Men's Toiletries

Vaseline Hair Cream
Vaseline Shampoos
Vaseline Bath Oil

Flawless Medicated Cream
Blue Seal Talc
Peggy Sage Nail Polish

BOARD OF DIRECTORS

JOHN F. BETTS

President, International Pipe & Ceramics Corporation

ALFRED S. FOOTE

Senior Vice President, Morgan Guaranty Trust Company of New York

J. GRANDEL JONES*

Treasurer, Chesebrough-Pond's Inc.

ALEXANDER N. McFARLANE

Chairman and Chief Executive Officer, Corn Products Company

FRANK J. McGROARTY*

Secretary, Chesebrough-Pond's Inc.

ANTHONY OLADKO*

Vice President, Chesebrough-Pond's Inc.

ALVIN W. PEARSON

Partner, Lehman Brothers, and President, The Lehman Corporation

MORRIS W. PRIMOFF

Member of the law firm, Primoff & Primoff

ALBERT B. RICHARDSON

Vice President, Chesebrough-Pond's Inc.

JEROME A. STRAKA*

President and Chief Executive Officer, Chesebrough-Pond's Inc.

RALPH E. WARD*

Vice President, Chesebrough-Pond's Inc.

NORTHAM WARREN, JR.

Former Vice President, Chesebrough-Pond's Inc.

WILLIAM C. WATSON*

Vice President, Chesebrough-Pond's Inc.

**Member of Executive Committee*

OFFICERS

JEROME A. STRAKA	President and Chief Executive Officer
WILLIAM L. JACKSON	Vice President
ANTHONY OLADKO	Vice President
ALBERT B. RICHARDSON	Vice President
ROBERT J. SHAW	Vice President
RALPH E. WARD	Vice President
WILLIAM C. WATSON	Vice President
FRANK J. McGROARTY	Secretary
J. GRANDEL JONES	Treasurer
ALBERT M. ANDERSEN	Controller
WILLIAM J. SULLIVAN	Assistant Treasurer
ROBERT J. PRITCHARD	Assistant Controller

Executive Offices

485 LEXINGTON AVENUE, NEW YORK, N.Y. 10017

Telephone: OXford 7-4900

Certified Public Accountants

ARTHUR YOUNG & COMPANY, NEW YORK, N.Y.

Transfer Agent

THE CHASE MANHATTAN BANK, N.A., NEW YORK, N.Y.

Registrar

BANKERS TRUST COMPANY, NEW YORK, N.Y.

Chesebrough-Pond's Inc.

1966 ANNUAL REPORT

Review of The Year

- 2 Financial Highlights
- 2 President's Letter
- 4 Domestic Marketing
- 6 International Marketing
- 8 Worldwide Manufacturing
- 9 Research and Development
- 20 Newest Plant Locations

Financial Information

- 11 Consolidated Statement of Income
- 12 Consolidated Balance Sheet
- 14 Consolidated Statement of Capital Surplus
- 14 Consolidated Statement of Retained Earnings
- 15 Consolidated Statement of Source and Application of Working Capital
- 16 Notes to Consolidated Financial Statements
- 17 Report of Certified Public Accountants
- 18 Ten-Year Summary

Financial Highlights

	<u>1966</u>	<u>1965</u>
Net sales	\$157,207,000	\$142,726,000
Net income	\$ 12,551,000	\$ 11,388,000
Earnings per share	1.21	1.10
Dividends paid	\$ 7,199,000	\$ 6,309,000
Per share	.70	.62
Earnings retained in business	\$ 5,352,000	\$ 5,079,000
Working capital	\$ 44,080,000	\$ 43,792,000
Stockholders' equity	\$ 62,775,000	\$ 58,716,000
Per share	6.06	5.65
Shares outstanding at year end		
excluding treasury shares	10,360,513	10,383,993
Number of stockholders at year end	13,984	13,181

To Our Shareholders

We are pleased to report 1966 was the eleventh consecutive year since the merger of Pond's into Chesebrough that the company set new records in both sales and earnings. At the same time, Chesebrough-Pond's Inc. continued to strengthen its foundation for further growth.

It is indicative of the company's strength that it achieved these results in 1966 despite substantial expenditures in connection with a new plant at Jefferson City, Missouri, and the introduction of new products throughout the world.

For 1966 our sales reached \$157,207,000 and net income \$12,551,000 compared with \$142,726,000 and \$11,388,000, respectively, in 1965.

As a reflection of Chesebrough-Pond's continuing growth, the seventh consecutive increase in the quarterly dividend rate was announced in November. The quarterly payment was raised from 17 cents to 19 cents per share. The company has paid cash dividends without interruption since 1883. In the last seven years, however, the quarterly dividend rate has almost tripled, advancing from the equivalent of 6 $\frac{2}{3}$ cents to 19 cents a share.

Chesebrough-Pond's total capabilities were strengthened in 1966 with four acquisitions. Three were hospital supply companies — Lily White Sales Co., Inc., Faichney Instrument Corporation and Ballo Thermometer Company. The fourth was Erno Laszlo Institute, maker of high quality skin creams and lotions.

The addition of these companies did not substantially affect Chesebrough-Pond's total sales and earnings in 1966. More important, however, is the expanded role that Chesebrough-Pond's can now play in the rapidly growing hospital supply field. The three new hospital supply subsidiaries have been grouped with the Professional Products Department, which markets Vaseline sterile petrolatum gauze dressings, to form a new Hospital Products Division.

In keeping with the global nature of Chesebrough-Pond's operations, the company is continuing to expand not only in the United

States but also in the 140 countries and territories of the Free World where more than 100 Chesebrough-Pond's products are now sold. -

Production of Q-Tips Cotton Swabs has already begun at our new plant at Jefferson City. Full operation of the factory on other products is expected within a few months. In addition to the production efficiencies that will be achieved, the plant will greatly facilitate the marketing and distribution of our products in the Central and Western markets of the United States. We absorbed about \$1,000,000 in start-up expenses for this plant in 1966. Once remaining expenses for the installation have been absorbed in 1967, management anticipates the factory will provide the company with pre-tax savings at the rate of \$1,000,000 a year.

Overseas, a new factory in Argentina will be completed by mid-1967, and one in Japan is scheduled to open in 1968. These installations, together with earlier consolidations and expansions, are helping us toward the more efficient fulfillment of the growing demands of our customers around the world.

The company's results in 1966 were achieved in spite of the action taken by the Federal Government in moving against Measurin, our timed-release, eight-hour aspirin. It is a tribute to the company's internal strength that it was able to achieve its 1966 results despite a pre-tax loss on Measurin of about \$5,000,000.

The company is continuing to oppose what it regards as an unwarranted action by the Food and Drug Administration to institute proceedings for the withdrawal of its New Drug Approval for Measurin. Additional clinical and blood-level data have been submitted to the FDA's Bureau of Medicine in support of the efficacy and safety of Measurin. We are confident that in the public hearing which we have requested, we will demonstrate that Measurin is all we claim and that the FDA will reconfirm its original approval. However, if the decision should go against us, we are fully prepared for the consequences of discontinuing sales of Measurin. In 1967 we have budgeted several million dollars to promote Measurin. If we are required to withdraw Measurin, our losses should not exceed this amount.

Chesebrough-Pond's is not only a thriving company today but its structure as a worldwide business also gives it a solid base for the future in the rapidly expanding consumer economies of the world. Through intensive research and development and aggressive marketing techniques, we are well equipped to introduce successfully a variety of new products both in this country and abroad. Because of our widespread international operations, unfavorable political or economic conditions in any one country will not seriously affect our total business.

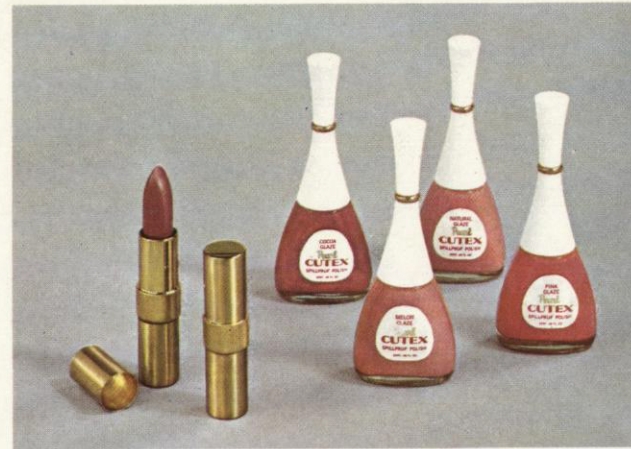
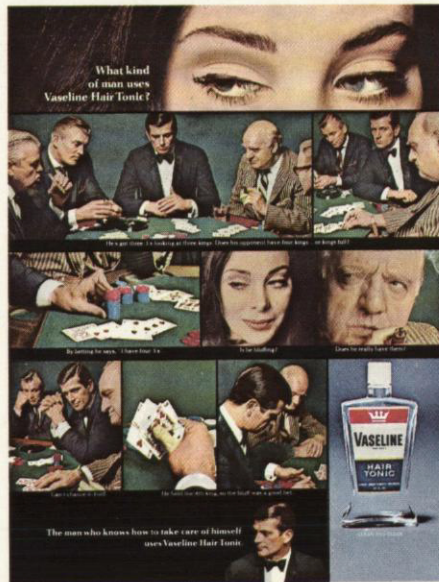
Above all, the key factor in Chesebrough-Pond's strength lies in its highly experienced, globally oriented management team and the devoted efforts of all our employees. We are confident that the company is in a solid position to achieve further significant gains in sales and earnings not only for 1967 but also for the years ahead.



March 8, 1967

Jerome A. Straka
President

DOMESTIC MARKETING



The company's domestic marketing operations again reached new highs in 1966. Sales increased from \$88,079,000 to \$96,425,000 while earnings were up from \$6,768,000 to \$7,436,000.

Particularly satisfactory results were achieved from specialty toiletries in both the new and the established lines. For example, Groom & Clean, the water-active hair dressing which was introduced nationally in 1965, registered improved sales as the brand continued to further its position as a leading hair groom. At the same time Vaseline Hair Tonic, spurred by new packaging and an intensive advertising program, increased its sales.

Sales of Pertussin 8-Hour Cough Formula gained substantially to establish this product solidly in the cough remedy field. Q-Tips Cotton Swabs advanced significantly in sales and became the company's largest selling product in the United States.

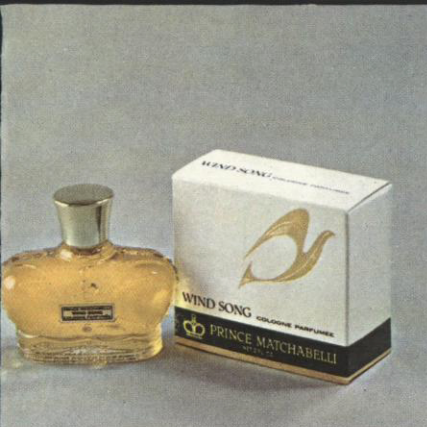
Among the cosmetics, Pond's Creams and Dreamflower Talc showed substantial gains. The increase in sales of Pond's Creams was further proof of the capacity of a traditional product to continue to move ahead through imaginative advertising and marketing techniques. This is the

third consecutive year of sales gains for Pond's Creams, which prior to 1964 had a relatively stable sales record. Most recently, a new packaging design has been introduced for the complete range of Pond's Creams.

Another achievement during the year was the successful promotion of a new line of high gloss Cutex lipstick and nail polishes with the theme "Go to Glazes." This was one of the continuing series of promotions which have made the Cutex line an increasingly substantial contributor to the company's profits.

Prince Matchabelli's sales and earnings continued to set new records with Wind Song making strong gains as the division's most popular fragrance. Wind Song Sheer Essence, a new perfumed body lotion, was introduced nationally with encouraging results.

During 1966, the company continued to advertise its products aggressively. The major portion of the 1966 advertising budget was allocated to commercials on the three national television networks. Intensive use was also made of leading magazines, with four-color advertisements for Vaseline Hair



Tonic, Cutex and Angel Face products appearing in 60 national publications.

At the beginning of the year the company quickly achieved national distribution for Measurin, the first timed-release aspirin to be sold over-the-counter to consumers. This product introduction was made after Measurin had been ruled safe and effective with the approval of the company's New Drug Application by the Food and Drug Administration. Measurin soon established a foothold in the highly competitive analgesic field.

However, last March the FDA discredited the work of a long-established, well-respected independent research laboratory. This laboratory, which had done work for 27 companies involving 80 products, was one of several the company used for Measurin clinical studies. With rejection of this laboratory's work on Measurin, the company submitted additional research to replace and go beyond the questioned studies. Elaborate clinical and blood-level data were presented to the FDA. Nevertheless, the FDA notified the company in August, 1966 that it planned to revoke its approval of the New Drug Application for Measurin.

Measurin has not been taken off the market and it is continuing to be sold over-the-counter pending a public hearing in which the company believes it will show once again that Measurin is safe, efficacious and does have a timed-release action.

Chesebrough-Pond's continued its search during 1966 for businesses whose acquisition would strengthen the company. Four such acquisitions were completed with product lines which fit within the framework of Chesebrough-Pond's existing business. The companies are Lily White Sales Co., Inc., manufacturer of gauze bandages; Faichney Instrument Corporation and Ballo Thermometer Company, manufacturers of clinical thermometers, and Erno Laszlo Institute, maker of high quality skin creams and lotions. The three hospital supply subsidiaries offer an opportunity for the company to expand its activity in a field which is currently demonstrating strong growth potential.

Altogether, the company goes into 1967 with a domestic marketing program and sales organization that is better equipped than ever before to develop existing lines and move into new and related areas.



The International Division continued to show significant gains in 1966 in almost all of the 140 countries and territories where Chesebrough-Pond's products are sold. The combination of the company's broad base and aggressive marketing approach resulted in international sales and earnings both setting new records. Sales increased from \$54,647,000 to \$60,782,000. This does not include sales of the company's products by licensees on which a royalty income was received. Earnings rose from \$4,620,000 to \$5,115,000. This is the eleventh straight year in which the International Division has set sales records and the sixth consecutive year in which record earnings were achieved. The results were attained in spite of high losses due to devaluations of foreign currencies. In 1966 these losses amounted to \$796,000 compared with \$448,000 in 1965.

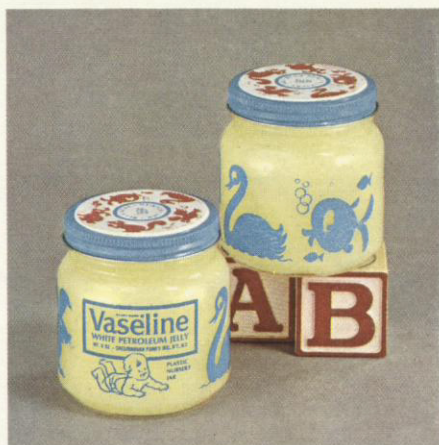
Here are the 1966 international highlights:

In Canada, rapid growth of both traditional and new products resulted in record sales and earnings. Contributing to this achievement was a sharp rise in sales of Q-Tips Cotton Swabs and the national introduction of Groom & Clean, the company's water-active hair groom. Canada has now become

the largest single market outside the United States for Q-Tips Cotton Swabs. Groom & Clean was introduced in Canada with the same creative strategy used in the United States. Initial consumer response to the product has been most encouraging. Sales of Vaseline Petroleum Jelly were boosted by a special jar designed for the nursery.

In Latin America, strong gains in sales and earnings were also achieved. These advances were made even though substantial devaluation, particularly in Argentina, continued to pose a problem. However, sales of major product lines in Argentina gained significantly during the year. An example of the company's progress in the developing Argentine market is Lord Cheseline Fijador, a men's hair grooming product. The product registered a very impressive gain in sales during the year and is now a leader in its field. With the growing consumer demand for the company's products already exceeding the capacity of the existing production facility, construction of a larger factory in Buenos Aires is now in progress.

The company achieved excellent results in Brazil in 1966 because of increased efficiencies in manufacturing, distribution and marketing. Chese-



brough-Pond's assumed control during the year of the manufacture and distribution of Cutex and Odorono, which were formerly handled by an agent. This step, in turn, led to substantial sales gains for these products. Outstanding sales results were also recorded for Pond's Dreamflower Talc, which was introduced into this market in 1965.

In England, the company's oldest and largest international market, sales were adversely affected by restrictive economic policies imposed by the government. The company expects that the temporary austerity measures which have influenced trade buying for inventory will not affect future development of the market, especially since consumer demand has remained buoyant. During the year, the company successfully introduced a new product, Vaseline Lemon Shampoo. The addition of this product to our already successful shampoo line strengthened Chesebrough-Pond's position as a leader in the shampoo field in England. Other achievements in England included the successful test marketing of Pertussin 8-Hour Cough Formula, sold as "Complex D," and Groom & Clean, introduced as "Clearway." Complex D went into national distribution at the start of the cough and

cold season. Clearway followed in January, 1967.

In Europe, the company continued to move ahead, particularly in Germany, France and Spain where new sales records were set. The European Division retained its position as Chesebrough-Pond's largest international division, reflecting the breadth of the organization and the importance of Europe as a consumer market.

In the Far East — especially in Japan — the company's business grew substantially. During the year Japan became the largest market for Pond's Cold Cream outside the United States. Results of operations in Japan were included in the consolidated financial statements for the first time in 1966. Formerly the investment in the Japanese operation was included in the consolidated balance sheet under "other assets."

The prospects for 1967 in all areas of the International Division again appear to be favorable. Such new products as Groom & Clean, Vaseline Lemon Shampoo and Fresh-Start by Pond's will be brought to additional markets.

Chesebrough-Pond's should continue to expand its business outside the United States and show a high level of profitability.

WORLDWIDE MANUFACTURING



Above: The Q-Tips Cotton Swabs production line at the new factory in Jefferson City, Missouri.

Right: Groom & Clean hair groom, sold as Clearway hair dressing in England, is now in production in the London plant.



Above: Pond's Dreamflower Talc in production at Clinton, Connecticut.

The company moved closer to its rapidly expanding Midwestern and Western markets in the United States in 1966 with the opening of a new 301,000 square foot factory in Jefferson City, Mo. This production center has already begun to make Q-Tips Cotton Swabs. It will reach full operation in the spring of 1967, producing Cutex, Odorono and Pertussin products.

With the opening of the new factory, the company terminated production of Q-Tips in Long Island City, N. Y. Production in the plant in Stamford, Conn. which manufactured Pertussin, Cutex and Odorono products was being phased out at the end of 1966 for a smooth transfer to Jefferson City early in 1967. Both transfers required extensive planning for the build-up of sufficient inventory to maintain a smooth distribution of products during the transitional periods. The Long Island City plants were sold in 1966 and a purchase contract for the Stamford facility was signed, with the sale to be completed in early 1967.

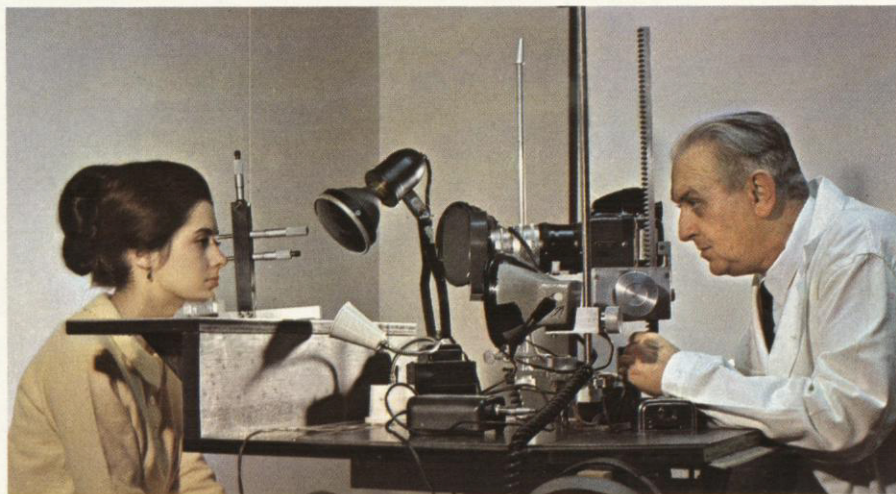
As the result of acquisitions completed during 1966, five plants joined the company's roster of production facilities and were integrated into the overall operating plan. These include Lily White

plants in Sherburne and Oriskany Falls, N. Y. and Red Bank, S. C., the Faichney Instrument base in Watertown, N. Y. and the Leesburg, Fla. headquarters of Ballo Thermometer Company.

Manufacturing facilities were also expanded in the International Division to supply expanding markets. In Argentina, the company began construction of a major new plant in Buenos Aires. The 110,000 square foot factory is due to become operational in the middle of 1967. When it is completed the plant will be the company's second largest facility outside the United States, surpassed only by the English factory.

Chesebrough-Pond's is also planning a new factory outside Tokyo to meet the needs of the expanding Japanese consumer market. This plant, which will manufacture Pond's, Angel Face and Cutex products, will be opened in 1968.

Other expansions were in Brazil, where the company assumed control from its manufacturing agent of production of Cutex and Odorono; in India, where equipment and technical advice is being provided by the company for a new factory being built by an agent; and in Jamaica, where similar assistance is being given to the agent.



Highly advanced photographic techniques are employed in the research laboratory to study the affects of cosmetics and creams on the skin.



Comparison of the covering power of liquid and cream makeups under development in the research laboratories.

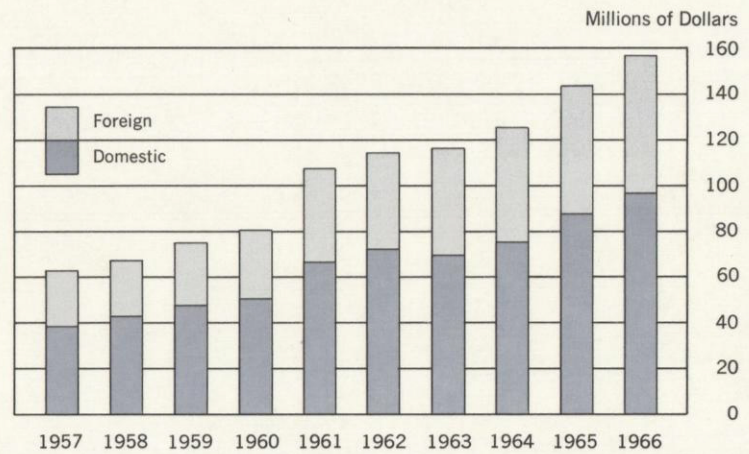
Research is considered a vital key to the future at Chesebrough-Pond's. Working in modern, well equipped laboratories in Clinton, Conn., company scientists continued in 1966 to conduct basic research and to move toward the development of new drugs and cosmetics. The worldwide goals behind our research and development efforts, for which about \$2,000,000 was spent in 1966, are the continuing improvement of current products and, more important, the development of new products which either complement the company's existing lines or represent major technological breakthroughs.

One important area of research is the study of methods to maintain good skin condition and to retard signs of aging. New items coming from such research programs are expected to play an increasingly important role in broadening the company's product line.

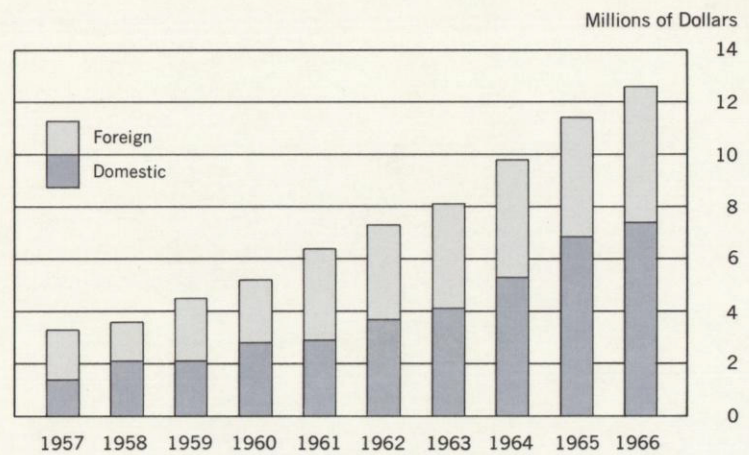
Throughout Chesebrough-Pond's worldwide organization, a high level of quality control is maintained to insure that the company's standards are met in each production facility.

The company is constantly looking for improvements in both new and traditional lines of cosmetics, proprietaries, toiletries, and hospital products. This work guarantees that each product sold over-the-counter is as good as Chesebrough-Pond's can make it — and that each will continue to be improved as research shows the way.

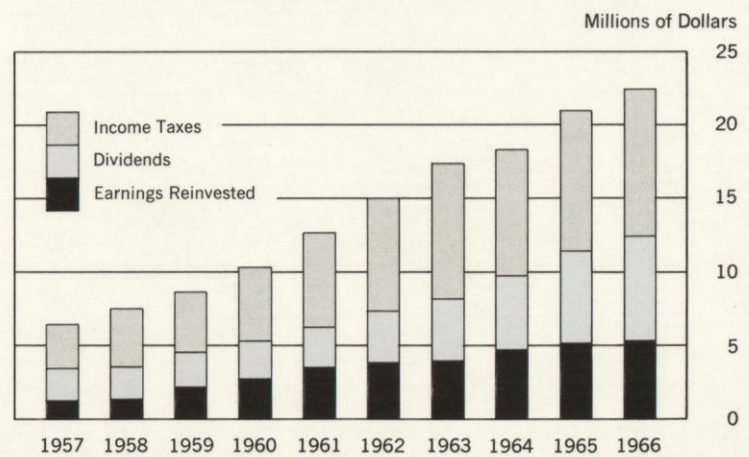
WORLDWIDE SALES



NET INCOME



DISTRIBUTION OF EARNINGS





Consolidated Statement of Income

	Year ended December 31,	
	<u>1966</u>	<u>1965</u>
Net sales	\$157,207,000	\$142,726,000
Royalties	<u>2,139,000</u>	<u>2,098,000</u>
Operating revenue	<u>159,346,000</u>	<u>144,824,000</u>
Cost of products sold	<u>60,809,000</u>	<u>54,732,000</u>
Selling, advertising and administrative expenses	<u>74,663,000</u>	<u>68,714,000</u>
Operating costs and expenses	<u>135,472,000</u>	<u>123,446,000</u>
Income from operations	<u>23,874,000</u>	<u>21,378,000</u>
Other income (expense):		
Interest income	658,000	474,000
Gain on disposal of property, plant and equipment	274,000	49,000
Miscellaneous income — net	393,000	375,000
New plant start-up expense	(945,000)	—
Loss on foreign exchange	(796,000)	(448,000)
Interest expense	<u>(956,000)</u>	<u>(751,000)</u>
	<u>(1,372,000)</u>	<u>(301,000)</u>
Income before provision for taxes on income	<u>22,502,000</u>	<u>21,077,000</u>
Federal and foreign income taxes	<u>9,951,000</u>	<u>9,689,000</u>
 NET INCOME	 <u>\$ 12,551,000</u>	 <u>\$ 11,388,000</u>
 Earnings per share	 \$1.21	 \$1.10

See accompanying notes.



Consolidated Balance Sheet

ASSETS

	December 31,	
	<u>1966</u>	<u>1965</u>
CURRENT ASSETS:		
Cash	\$ 7,068,000	\$ 7,375,000
Marketable securities, at cost which approximates market	3,220,000	9,438,000
Accounts receivable	24,659,000	20,420,000
Inventories—lower of cost (first-in, first-out) or market:		
Finished goods	14,274,000	12,576,000
Raw materials and work-in-process	16,388,000	14,028,000
Prepaid expenses	<u>2,347,000</u>	<u>1,972,000</u>
Total current assets	67,956,000	65,809,000
 PROPERTY, PLANT AND EQUIPMENT, at cost:		
Buildings and equipment	36,507,000	28,782,000
Less accumulated depreciation	<u>14,551,000</u>	<u>12,809,000</u>
	21,956,000	15,973,000
Land	1,255,000	1,087,000
Unexpended funds for new plant construction	<u>865,000</u>	<u>5,272,000</u>
Net property, plant and equipment	24,076,000	22,332,000
 OTHER ASSETS, at cost	898,000	425,000
 GOODWILL AND TRADEMARKS, at cost	<u>8,604,000</u>	<u>8,185,000</u>
	<u><u>\$101,534,000</u></u>	<u><u>\$96,751,000</u></u>

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31,	
	<u>1966</u>	<u>1965</u>
CURRENT LIABILITIES:		
Notes payable and foreign bank overdrafts	\$ 2,581,000	\$ 1,804,000
Accounts payable and accrued liabilities	14,952,000	13,836,000
Federal and foreign income taxes	5,138,000	6,377,000
Long term obligations due within one year	<u>1,205,000</u>	<u>—</u>
Total current liabilities	23,876,000	22,017,000
 LONG TERM OBLIGATIONS	 14,295,000	 15,500,000
 DEFERRED EXECUTIVE INCENTIVE COMPENSATION	 588,000	 518,000
 STOCKHOLDERS' EQUITY:		
Preferred stock — \$1.00 par value		
Authorized in 1966 and unissued — 1,000,000 shares		
Common stock — \$1.00 par value		
Authorized — 15,000,000 shares		
Issued — 10,482,213 shares (1965—10,383,993)	10,482,000	10,384,000
Capital surplus	3,634,000	2,112,000
Retained earnings	<u>51,572,000</u>	<u>46,220,000</u>
	65,688,000	58,716,000
Less 121,700 shares of treasury stock, at cost	<u>2,913,000</u>	<u>—</u>
Total stockholders' equity	<u>62,775,000</u>	<u>58,716,000</u>
	<u><u>\$101,534,000</u></u>	<u><u>\$96,751,000</u></u>

See accompanying notes.



Consolidated Statement of Capital Surplus

	Year ended December 31,	
	<u>1966</u>	<u>1965</u>
Balance at beginning of year	\$2,112,000	\$1,137,000
Add:		
Excess of par value of capital stock in acquired companies over par value of the shares issued	—	263,000
Proceeds in excess of par value of stock issued under the Stock Purchasing Plan	739,000	406,000
Tax benefit resulting from the Stock Purchasing Plan	<u>783,000</u>	<u>306,000</u>
Balance at end of year	<u>\$3,634,000</u>	<u>\$2,112,000</u>

See accompanying notes.



Consolidated Statement of Retained Earnings

	Year ended December 31,	
	<u>1966</u>	<u>1965</u>
Balance at beginning of year	\$46,220,000	\$40,741,000
Add:		
Retained earnings of acquired companies as of December 31, 1964	—	400,000
Net income	<u>12,551,000</u>	<u>11,388,000</u>
	58,771,000	52,529,000
Dividends paid — \$.70 per share in 1966 (\$.62 in 1965)	<u>7,199,000</u>	<u>6,309,000</u>
Balance at end of year	<u>\$51,572,000</u>	<u>\$46,220,000</u>

See accompanying notes.



Consolidated Statement of Source and Application of Working Capital

SOURCE	Year ended December 31,	
	1966	1965
Net income	\$12,551,000	\$11,388,000
Add charges to net income not involving working capital:		
Depreciation	1,986,000	1,832,000
Deferred executive incentive compensation (net of tax)	<u>70,000</u>	<u>81,000</u>
Provided from operations	14,607,000	13,301,000
Book value of property, plant and equipment retired	550,000	100,000
Receipts under Stock Purchasing Plan	1,620,000	808,000
Proceeds from sale of Industrial Development Bonds	<u>—</u>	<u>5,500,000</u>
	<u>\$16,777,000</u>	<u>\$19,709,000</u>
APPLICATION		
Additions to property, plant and equipment	\$ 4,280,000	\$ 2,303,000
Funds set aside for new plant construction	—	5,272,000
Increase in other assets	473,000	64,000
Increase in goodwill	419,000	—
Reduction in long-term obligations	1,205,000	—
Purchase of company's common stock	2,913,000	—
Dividends	7,199,000	6,309,000
Increase in working capital	<u>288,000</u>	<u>5,761,000</u>
	<u>\$16,777,000</u>	<u>\$19,709,000</u>

See accompanying notes.

Notes to Consolidated Financial Statements

Basis of Consolidation

The consolidated financial statements include the accounts of all domestic and foreign subsidiaries. In 1966 the accounts of Chesebrough-Pond's (Japan) Ltd., are included in the consolidated financial statements for the first time. This change had no material effect on the consolidated financial statements.

During 1966 the company acquired the capital stock of Lily White Sales Co., Inc. and Faichney Instrument Corporation in exchange for 183,188 shares of its common stock. Additional common stock at a market value not to exceed \$2,000,000 may be issued depending upon the net earnings of Lily White's operations during the five years ending December 31, 1970. These acquisitions have been accounted for as "poolings of interests." Accordingly, the consolidated financial statements for 1965 have been restated to include the accounts of these two companies.

In 1966 the company purchased Erno Laszlo Institute and Ballo Thermometer Company for \$1,077,000. The operations of these companies have been included in the consolidated financial statements from their respective dates of acquisition. The increase of \$419,000 in goodwill and trademarks during 1966 resulted primarily from these acquisitions.

Foreign Operations

The consolidated balance sheet at December 31, 1966 included net assets of \$31,018,000 for subsidiaries and branches in foreign countries. Property, plant and equipment accounts were translated into dollars at the appropriate rates of exchange at dates of acquisition. All other assets, liabilities and operating accounts, except depreciation, were translated at appropriate rates of exchange.

Results of foreign operations included in the consolidated statement of income were as follows:

	1966	1965
Net sales	\$60,782,000	\$54,647,000
Income taxes imposed by foreign countries	3,402,000	3,251,000
Net income	5,115,000	4,620,000

Long Term Obligations

The long term obligations at December 31, 1966, excluding amounts due in 1967, were:

5% Notes Payable due 1968 through 1976, in equal annual installments	\$ 9,000,000
Long term lease obligation	5,295,000
Total	<u>\$14,295,000</u>

The agreement pertaining to the 5% notes provides that the company will not pay cash dividends or acquire any shares of its capital stock except to the extent of \$5,000,000 plus consolidated net income (as defined) subsequent to December 31, 1960, or if the consolidated net current assets would be reduced by such action to less than \$20,000,000. At December 31, 1966, \$24,080,000 of consolidated retained earnings were not restricted under these provisions.

In 1965 the company signed a long term lease for a plant and warehouse being constructed by the City of Jefferson, Missouri from the proceeds of \$5,500,000 of Industrial Development Bonds. An annual rental of approximately \$400,000 (to cover payments of bond principal and interest) is payable to the City of Jefferson, Missouri beginning in 1967 and ending in 1985. The company has an option to purchase the facilities at any time for an amount sufficient to retire the then outstanding debt or for a nominal amount after the retirement of the debt. The transaction is being treated as a purchase for both accounting and tax purposes. At December 31, 1966 the unexpended proceeds from the sale of the bonds amounted to \$865,000. This sum is included under property, plant and equipment in the balance sheet.

Stock Purchasing Plan

At January 1, 1966, 599,195 shares of common stock were reserved for issuance under the Stock Purchasing Plan to certain officers and administrative employees against which purchase elections for 261,150 shares were outstanding at prices ranging from \$6.72 to \$10.30 per share. Employees may pay for shares they elect to purchase over a period of five years; shares are not issued until paid for in full. The purchaser may not dispose of the shares purchased for a period of five years from the date of acceptance of the purchase agreement by the company. During the year, employees were granted elections to purchase 100,530 shares at \$11.84 per share (representing fourteen times the average earnings per share during the preceding five years), agreements for 480 shares were cancelled, and 98,220 shares were fully paid for and issued (at prices ranging from \$6.72 to \$11.84 per share). At December 31, 1966, 500,975 shares were reserved, of which purchase elections for 262,980 shares were outstanding.

In accordance with United States Treasury Department regulations, the company is entitled to a tax deduction of the difference between the purchase and market prices on the date of the employee's subscription or the date the five-year restriction period mentioned above ends, whichever is the lesser. The tax benefit provided by these regulations is considered an increase in the amount received by the company for the stock sold

under the Plan and, accordingly, is credited to capital surplus. This credit amounted to \$783,000 in 1966.

Deferred Executive Incentive Compensation

In 1966 the company's stockholders approved a revision of the Executive Incentive Profit Sharing Plan whereby each participant could elect to convert the amount of the deferred portion of his incentive compensation as of December 31, 1965 into units measured by the current market value of a share of the company's common stock. The deferred portion of incentive compensation for 1966 and subsequent years will be converted into similar units. Participating employees will receive, upon retirement, death or termination of employment, shares of the company's treasury stock equal

to the number of units credited to such employees unless the company elects to distribute cash equal to the market value of such shares at that time.

During 1966, \$426,000 was charged to income under the provisions of the Plan. The deferred executive incentive compensation at December 31, 1966 was \$1,131,000 and has been reduced by \$543,000 of federal income tax applicable thereto. Units credited to participants under the Plan were 35,734.

Retirement Plans

The company has various retirement plans covering the majority of its employees in the United States and other countries. The past service costs have been fully funded for the principal plans. Amounts charged to income for all plans were \$350,000 in 1966 and \$519,000 in 1965.

Report of Certified Public Accountants

ARTHUR YOUNG & COMPANY

277 PARK AVENUE
NEW YORK, N. Y. 10017

The Stockholders
Chesebrough-Pond's Inc.

We have examined the accompanying consolidated balance sheet of Chesebrough-Pond's Inc. and subsidiaries at December 31, 1966 and the related consolidated statements of income, capital surplus, retained earnings and source and application of working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have reviewed the reports of other independent public accountants with respect to their examinations of the financial statements of certain foreign subsidiaries.

In our opinion, based upon our examination and the reports of other independent public accountants referred to above, the statements mentioned above present fairly the consolidated financial position of Chesebrough-Pond's Inc. and subsidiaries at December 31, 1966, the consolidated results of their operations and the source and application of their consolidated working capital for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 24, 1967

Arthur Young & Company

**Ten-Year Summary : 1957-1966** (in thousands of dollars)

OPERATIONS	1966	1965
Net sales	\$ 157,207	\$ 142,720
Royalties	2,139	2,090
Operating costs and expenses	135,472	123,440
Income before taxes	22,502	21,070
Income taxes	9,951	9,680
Net income	12,551	11,380
Earnings per share*	\$1.21	\$1.10
Dividends per share	.70	.62
Pre-tax income as a percentage of net sales	14.3%	14.8%
Net income as a percentage of net sales	8.0%	8.0%

YEAR-END FINANCIAL POSITION

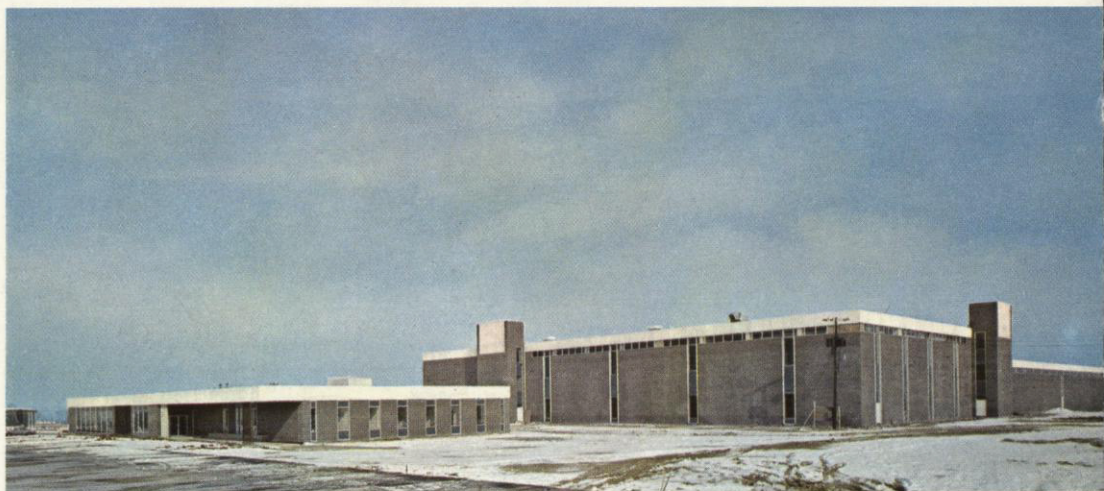
Current assets	\$ 67,956	\$ 65,809
Property, plant and equipment (net)	24,076	22,332
Total assets	101,534	96,751
Current liabilities	23,876	22,017
Working capital	44,080	43,792
Total liabilities	38,759	38,035
Stockholders' equity	62,775	58,716
Stockholders' equity per share	\$6.06	\$5.65
Return on stockholders' equity	21.4%	21.2%
Shares outstanding (Excluding treasury shares)	10,360,513	10,383,993

The information for the year 1965 has been restated to include acquisitions in 1966 which have been treated as poolings of interests.

*Based on the average number of shares outstanding during the respective years. Shares outstanding and all per share figures have been adjusted to give effect to the stock splits in 1960 and 1964.

<u>1964</u>	<u>1963</u>	<u>1962</u>	<u>1961</u>	<u>1960</u>	<u>1959</u>	<u>1958</u>	<u>1957</u>
125,985	\$ 116,885	\$ 114,581	\$ 107,845	\$ 80,226	\$ 75,190	\$ 67,477	\$ 63,052
1,911	1,702	1,606	1,629	366	360	316	202
109,674	100,882	100,698	96,110	70,453	67,086	60,019	57,032
18,313	17,287	15,000	12,740	10,287	8,590	7,506	6,364
8,483	9,157	7,703	6,358	5,045	4,130	3,924	3,034
9,830	8,130	7,297	6,382	5,242	4,460	3,582	3,330
\$.97	\$.81	\$.73	\$.64	\$.53	\$.47	\$.38	\$.36
.50	.42	.35	.30	.29	.27	.27	.27
14.5%	14.8%	13.1%	11.8%	12.8%	11.4%	11.1%	10.1%
7.8%	7.0%	6.4%	5.9%	6.5%	5.9%	5.3%	5.3%
57,767	\$ 54,104	\$ 51,621	\$ 45,863	\$ 43,128	\$ 29,905	\$ 28,824	\$ 25,179
16,280	15,351	14,835	14,450	14,796	11,042	8,957	8,599
82,586	78,154	75,428	69,320	67,448	44,435	39,928	35,914
20,080	20,904	20,266	17,237	15,065	11,053	10,325	8,602
37,687	33,200	31,355	28,626	28,063	18,852	18,499	16,577
30,566	31,341	32,755	30,644	32,224	11,446	10,587	8,810
52,020	46,813	42,673	38,676	35,224	32,989	29,341	27,104
\$5.13	\$4.64	\$4.24	\$3.86	\$3.57	\$3.41	\$3.11	\$2.94
21.0%	19.1%	18.9%	18.1%	15.9%	15.2%	13.2%	13.0%
0,143,245	10,084,638	10,054,530	10,016,184	9,879,930	9,676,065	9,419,940	9,228,465

NEWEST PLANT LOCATIONS



Above: The new production center at Jefferson City, Mo. will achieve full operation in the spring of 1967.

Left: The Ballo Thermometer Company in Leesburg, Fla., acquired in 1966.

Below: The new factory in Buenos Aires, Argentina, scheduled to begin operations in July, 1967.





Chesebrough-Pond's Inc.

Beauty, Grooming and Health — Worldwide

Domestic Plant Locations

Clinton, Connecticut
Jefferson City, Missouri
Leesburg, Florida
Oriskany Falls, New York
Perth Amboy, New Jersey
Red Bank, South Carolina
Sherburne, New York
Watertown, New York

International Branches and Subsidiaries

Argentina, Buenos Aires
Australia, Melbourne
Brazil, Rio de Janeiro
Brazil, Sao Paulo
Canada, Markham
England, London
France, Paris
Ghana, Accra
Holland, Amsterdam
India, Bombay
Ireland, Dublin
Italy, Milan
Japan, Tokyo
Mexico, Mexico City
Nigeria, Apapa
Pakistan, Karachi
Puerto Rico, San Juan
South Africa, Germiston
Southern Rhodesia, Salisbury
Switzerland, Geneva
Thailand, Bangkok
Uruguay, Montevideo
Venezuela, Caracas
West Germany, Obendorf-Am-Neckar
Zambia, Lusaka

In addition to maintaining plants in 14 countries, Chesebrough-Pond's uses the facilities of manufacturing and selling representatives in 41 other important markets.

Chesebrough-Pond's products are sold in 140 markets throughout the world.



Chesebrough-Pond's Inc.